MONETARY POLICY STATEMENT

PRESS CONFERENCE

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Frankfurt am Main, 16 March 2023

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Good afternoon, the Vice-President and I welcome you to our press conference.

Inflation is projected to remain too high for too long. Therefore, the Governing Council today decided to increase the three key ECB interest rates by 50 basis points, in line with our determination to ensure the timely return of inflation to our two per cent medium-term target. The elevated level of uncertainty reinforces the importance of a data-dependent approach to our policy rate decisions, which will be determined by our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

We are monitoring current market tensions closely and stand ready to respond as necessary to preserve price stability and financial stability in the euro area. The euro area banking sector is resilient, with strong capital and liquidity positions. In any case, our policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed and to preserve the smooth transmission of monetary policy.

The new ECB staff macroeconomic projections were finalised in early March before the recent emergence of financial market tensions. As such, these tensions imply additional uncertainty around the baseline assessments of inflation and growth. Prior to these latest developments, the baseline path for headline inflation had already been revised down, mainly owing to a smaller contribution from energy prices than previously expected. ECB staff now see inflation averaging 5.3 per cent in 2023, 2.9 per cent in 2024 and 2.1 per cent in 2025. At the same time, underlying price pressures remain strong. Inflation excluding energy and food continued to increase in February and ECB staff expect it to average 4.6 per cent in 2023, which is higher than foreseen in the December projections. Subsequently, it is projected to come down to 2.5 per cent in 2024 and 2.2 per cent in 2025, as the upward pressures from past supply shocks and the reopening of the economy fade out and as tighter monetary policy increasingly dampens demand.

The baseline projections for growth in 2023 have been revised up to an average of 1.0 per cent as a result of both the decline in energy prices and the economy's greater resilience to the challenging international environment. ECB staff then expect growth to pick up further, to 1.6 per cent, in both 2024 and 2025, underpinned by a robust labour market, improving confidence and a recovery in real incomes. At the same time, the pick-up in growth in 2024 and 2025 is weaker than projected in December, owing to the tightening of monetary policy.

The decisions taken today are set out in a press release available on our website.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

The euro area economy stagnated in the fourth quarter of 2022, thus avoiding the previously expected contraction. However, private domestic demand fell sharply. High inflation, prevailing uncertainties and tighter financing conditions dented private consumption and investment, which fell by 0.9 per cent and 3.6 per cent respectively.

Under the baseline, the economy looks set to recover over the coming quarters. Industrial production should pick up as supply conditions improve further, confidence continues to recover, and firms work off large order backlogs. Rising wages and falling energy prices will partly offset the loss of purchasing power that many households are experiencing as a result of high inflation. This, in turn, will support consumer spending.

Moreover, the labour market remains strong, despite the weakening of economic activity. Employment grew by 0.3 per cent in the fourth quarter of 2022 and the unemployment rate stayed at its historical low of 6.6 per cent in January 2023.

Government support measures to shield the economy from the impact of high energy prices should be temporary, targeted and tailored to preserving incentives to consume less energy. As energy prices fall and risks around the energy supply recede, it is important to start rolling back these measures promptly and in a concerted manner. Measures falling short of these principles are likely to drive up medium-term inflationary pressures, which would call for a stronger monetary policy response. Moreover, in line with the EU's economic governance framework and as stated in the European Commission's guidance of 8 March 2023, fiscal policies should be oriented towards making our economy more productive and gradually bringing down high public debt. Policies to enhance the euro area's supply capacity, especially in the energy sector, can help reduce price pressures in the medium term. To that end, governments should swiftly implement their investment and structural reform plans under the Next Generation EU programme. The reform of the EU's economic governance framework should be concluded rapidly.

Inflation

Inflation edged down to 8.5 per cent in February. The decline resulted from a renewed sharp drop in energy prices. By contrast, food price inflation increased further, to 15.0 per cent, with the past surge in the cost of energy and of other inputs for food production still feeding through to consumer prices.

Moreover, underlying price pressures remain strong. Inflation excluding energy and food increased to 5.6 per cent in February and other indicators of underlying inflation have also stayed high. Non-energy industrial goods inflation rose to 6.8 per cent in February, mainly reflecting the delayed effects of past supply bottlenecks and high energy prices. Services inflation, which rose to 4.8 per cent in February, is also still being driven by the gradual pass-through of past energy cost increases, pent-up demand from the reopening of the economy and rising wages.

Wage pressures have strengthened on the back of robust labour markets and employees aiming to recoup some of the purchasing power lost owing to high inflation. Moreover, many firms were able to raise their profit margins in sectors faced with constrained supply and resurgent demand. At the same time, most measures of longer-term inflation expectations currently stand at around two per cent, although they warrant continued monitoring, especially in light of recent volatility in market-based inflation expectations.

Risk assessment

Risks to the outlook for economic growth are tilted to the downside. Persistently elevated financial market tensions could tighten broader credit conditions more strongly than expected and dampen confidence. Russia's unjustified war against Ukraine and its people continues to be a significant downside risk to the economy and could again push up the costs of energy and food. There could also be an additional drag on euro area growth if the world economy weakened more sharply than expected. However, companies could adapt more quickly to the challenging international environment and, together with the fading-out of the energy shock, this could support higher growth than currently expected.

The upside risks to inflation include existing pipeline pressures that could still send retail prices even higher than expected in the near term. Domestic factors, such as a persistent rise in inflation expectations above our target or higher than anticipated increases in wages and profit margins, could drive inflation higher, including over the medium term. Moreover, a stronger than expected economic rebound in China could give a fresh boost to commodity prices and foreign demand. The downside risks to inflation include persistently elevated financial market tensions that could accelerate disinflation. In addition, falling energy prices could translate into reduced pressure from underlying inflation and wages. A weakening of demand, including owing to a stronger deceleration of bank credit or a stronger than projected transmission of monetary policy, would also contribute to lower price pressures than currently anticipated, especially over the medium term.

Financial and monetary conditions

Market interest rates rose considerably in the weeks following our last meeting. But the increase has strongly reversed over recent days in a context of severe financial market tensions. Bank credit to euro area firms has become more expensive. Credit to firms has weakened further, owing to lower demand and tighter credit supply conditions. Household borrowing has become more expensive as well, especially owing to higher mortgage rates. This rise in borrowing costs and the resultant decline in demand, along with tighter credit standards, have led to a further slowdown in the growth of loans to households. Amid these weaker loan dynamics, money growth has slowed sharply, driven by its most liquid components.

Conclusion

Summing up, inflation is projected to remain too high for too long. Therefore, the Governing Council today decided to increase the three key ECB interest rates by 50 basis points, in line with our determination to ensure the timely return of inflation to our two per cent medium-term target. The elevated level of uncertainty reinforces the importance of a data-dependent approach to our policy rate decisions, which will be determined by our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission. We are monitoring current market tensions closely and stand ready to respond as necessary to preserve price stability and financial stability in the euro area.

In any case, we stand ready to adjust all of our instruments within our mandate to ensure that inflation returns to our medium-term target and to preserve the smooth functioning of monetary policy transmission.

We are now ready to take your questions.

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I was wondering, could you explain a little bit how you see the path of interest rates ahead? Until a few days ago, it seemed pretty clear that interest rates would have to rise further after this meeting, but you didn't give any guidance in the statement. Does this mean it could be that we've already reached the peak in interest rates?

Then secondly, regarding the banking sector more broadly: a lot of people have drawn parallels between what happened at Credit Suisse and Silicon Valley Bank between, and failures we've seen in the last financial crisis like Bear Stearns. Did you see any risks that we are on the verge of a systemic crisis like in 2008?

On your first question: I would call your attention to one particular paragraph, which is the first one in our monetary policy statement in which we are really trying to dissect for you the mechanism of our reaction function. This is really the best guidance that we can provide and it is 1) the assessment of the inflation outlook in light of the incoming economic and financial data, 2) the dynamics of underlying inflation, and 3) the strength of our monetary policy transmission. So, that's brand new. These three components, we never discussed them, we never let them out and they are clearly identified as the three elements that will be taken into account to determine our reaction function going forward.

Second point: if our baseline was to persist when the uncertainty reduces, we know that we have a lot more ground to cover. But it's a big caveat. If our baseline was to persist. As you know, the projections that were determined by staff – are based on data and assessment of the situation with a cut-off date. That cut-off date was 15 February for the international outlook and technical assumptions and 1 March for the euro area macroeconomic projections. Now, since 1 March a lot obviously has developed and the projections that we have do not incorporate any of the most recent developments and certainly not the impact of the most recent financial tensions that we have observed on the markets.

So, there is a level of uncertainty that has been completely elevated as a result of that, and that is the reason why we reinforced the principle of data dependency that we have indicated in the past with a clear map of the reaction function that we will have in the future. So, it is not possible at this point in time and on the basis of the first component that I have mentioned, which is assessment of the inflation outlook in light of the incoming economic and financial data, it is not possible to determine at this point in time what the path will be going forward. But we know that it will be data dependent and we know that if the baseline as we have it was confirmed and was to persist, we would have more ground to cover.

On your second point, I will again read for you one more time what is in the second paragraph this time of our monetary policy statement, which is that we are monitoring current market tensions closely. We stand ready to respond as necessary to preserve price stability and financial stability in the euro area. Given the reforms that have taken place – and I was around in 2008 so I have clear recollection of what happened and what we had to do – we did reform the framework. We did agree on Basel III, we did increase the capital ratio, we did increase the financial coverage ratios as well and I think that the banking sector is currently in a much, much stronger position than where it was back in 2008.

Added to which: if it was needed, we do have the tools, we do have the facilities that are available and we also have a toolbox that has other instruments that we always stand ready to activate if and when needed. Finally, and that is a tribute to our staff because as you can imagine, we all have worked quite hard in the last few days and particularly the last few hours. They have demonstrated in the past that they can also exercise creativity in very short order in case it is needed to respond to what would be a liquidity crisis if there was such a thing. But this is not what we are seeing.

Could you please unpack for me your statement that there might be a lot more ground to cover, should the baseline prevail? What does that mean? Especially given that prior to this meeting, almost all Governing Council members, including Philip Lane, has said that more rate hikes will likely be needed beyond March. So, are you walking back on that commitment, or is the ECB's inflation fighting stamina waning? Are you giving up on inflation?

The second question I have is the usual one, I'm sorry: what other options were being discussed in the meeting today? What were the alternatives that policymakers were supporting?

We are not waning on our commitment to fight inflation and we are determined to return inflation back to the 2% target in the medium term. That should not be doubted. The determination is intact and the path at which we will cover the ground, the pace that we will take will be entirely data dependent. That's what we have always said, and we are saying on this specific occasion that given the level of uncertainty that has been significantly increased as a result of the most recent financial tensions and developments, given that level of uncertainty it is better to make the decision that we believe is a robust decision with our 50 basis points increase, and then see what the data tell us, and what next assessment we make on the basis of that data. Let me reassure you: we are determined to fight inflation and return it to 2%. We will take the measures that are necessary. They will be data dependent and they will function on the basis of these three parameters that I have just mentioned to illustrate what our reaction function is.

You had a second question, which you said was a repeat of previous questions, which I think had to do with any other options? What has happened behind those closed doors? I fully appreciate the question. I have to tell you that the Executive Board proposed that option which is described in the monetary policy statement and that no other option was proposed. I can also tell you that the decision was adopted by a very large majority with three or four that did not support the decision, not in its principle because they were ready to go for that decision, but they were keen to probably give a bit more time to see how the situation unfolds and what additional data we can collect. But otherwise it was a very large majority decision and, I would say, taken in rather record time.

I would like to ask a question concerning the data-driven decisions: isn't there a conflict of goals between price stability and financial stability? To what extent do you consider slowing down the pace of rate hikes because of financial stability? Do you have to slow it down perhaps because of financial stability? That is my first question.

The second: were you surprised by the financial problems we see now in the US, and we saw last year in the pension funds in the UK? Was this a surprise or is this something which was expected perhaps by monetary policy experts?

Well, let me be pretty clear on that point as well: I believe that there is no trade-off between price stability and financial stability. I think that if anything, with this decision we are demonstrating this. We are addressing the price stability issue by raising interest rates by 50 basis points, which is what we had intended, and because inflation is projected to remain way above our target and for too long. Separate from that, we also are monitoring market tensions. We stand ready to provide any kind of additional facilities if needed. We do have extensive facilities, more so by the way than the Fed in terms of size of the collateral pools and facilities, and we can do more if necessary. We have demonstrated that in times of crisis all the instruments that we decided in the PEPP times, whether it is on the pool of collaterals, whether it's on the haircuts, whether it's on all issues, that can be reactivated like that.

We always stand ready to use them again. So euro liquidity is perfectly addressed. No issue on that front. There is no trade-off. We have to do our job. This is our primary objective; price stability and as I said in the identification of the three components that will inform our decision, that will determine our reaction function, you find the word “financial” if you look carefully. You have assessment of the inflation outlook in light of the incoming economic and financial data. So, the financial issues are captured in order to assess inflation. So, there is no trade-off. We have financial stability very much as part of our radar screen and the tools that we can deploy, but there is no trade-off between the two. Did you want to add to that, Vice President?

De Guindos: Well, first of all, from a financial stability standpoint the perspective is quite clear: if you look at the industry as a whole, as the President has indicated before, the situation of the European banks, they are resilient. Capital is much higher than it was ten, fifteen years ago before the global financial crisis. The liquidity position of the European banks is robust. If you look at the liquidity ratios on average, they are clearly above the minimum requirements and even the pre-pandemic levels. Even if you look at the composition of these liquidity buffers, they are high quality, very high liquidity assets so in that respect the composition is quite positive. Finally, there is something that I think that is relevant, that is: the increase in interest rates, well, it's positive in terms of the margins of the European banks. This improvement in terms of profitability more than offsets the potential losses in fixed income portfolios.

Looking at the exposure for instance to Credit Suisse, they are quite limited and there is no concentration. There is no single counterparty that concentrates a large part of that exposure. Finally as the President has indicated, well, we have a toolkit of instruments just in case that are needed in order to deliver liquidity.

Could you just explore a bit more this potential for a trade-off between financial stability and price stability? Could you foresee a situation where given the outlook for inflation you need to

raise rates further but there's a risk that that could trigger a financial crisis or make a financial stress worse?

Second question is that given that you've said the underlying inflation is going to be one of the key factors you look at when deciding, one of the three key factors, does that mean that until you see an easing of most of the indicators of underlying inflation – which we're not seeing at the moment – you won't be able to stop raising rates?

On the first one: as I said earlier, we don't see any trade-off between price stability and financial stability and we will address each of these two with their respective instrument. For the moment, interest rates for price stability and the set of facilities that we have available, additional lines if necessary, including in other currencies if that is needed, in order to address financial stability issues. So, they inform each other – and I'll come to that in a second – but we handle them separately and there is no trade-off between the two. It is pretty obvious when I say that the inflation outlook will be assessed in light of the incoming economic and financial data, that the financial data, whatever they are, will inform our assessment of inflation. So, through that assessment – sorry, through those financial data – we actually take into account development in the financial markets, financing, financial cost, terms and conditions and the financing of the economy at large.

As to your second question about the assessment of the inflation outlook in light of economic and financial data I would say that it needs to be confirmed by the underlying components of inflation. On that front, we are again going to be data dependent and it is obvious that as long as we see underlying components of inflation going up, this is not going to stop our fight against inflation. So, we will need to receive confirmation on the underlying component of inflation. We will need to receive confirmation that we are heading in the direction of our target of 2%. We are seeing some slight improvement in certain areas but frankly, not a lot.

We know that whether you look at core – which is one of the components of the underlying inflation – or whether we look at other dissections of inflation, and in particular when we look at services, it's not yet heading in the direction that would confirm the inflation outlook that we have.

My question is on the mentioning of monetary policy transmission, which comes in your decisions in the three points that you said about explaining your reaction function. So, one of them is the monetary policy transmission and also at the end of your decisions, you mentioned that the Governing Council is ready to adapt and adjust your instruments to preserve also the monetary policy transmission. So, we think about TPI when we hear about this. I'd like to know whether you think that TPI can be used when banking tensions start to jeopardise the transmission of monetary policy, and whether in your fully-equipped toolkit you could also consider to adjust the pace of the reduction of the holdings of securities under the asset purchase programme, so the QT?

First of all, on monetary policy transmission, I will be giving a speech soon about monetary policy transmission, and about the first leg of monetary policy transmission, and the second leg of monetary policy transmission. All I can say at this point in time is that we are beginning to see transmission of our monetary policy through the credit channel, and if you look at rates, if you look at terms and conditions, if you look at the impact that it has on the demand of financing, on the part of both corporates and households, we are beginning to see transmission of our monetary policy, which is what we expected. TPI, the transmission protection instrument, was precisely designed to make sure that monetary policy would travel and move all the way to all 20 members of the euro area. That would be caused by factors that had nothing to do with the fundamentals of an economy, or its general macroeconomic policies. We have not yet had to decide whether financial tensions would qualify in that respect, but it could well be the case. I'm advancing a little bit, because we did not discuss that at all, and it's something that would need to be debated with the Governing Council. Nor did we decide anything on the partial reinvestment under the APP. That's a principle that we decided back at our February meeting, which has been in place now as of 1 March, and that will continue to unfold in a regular and unimpeded fashion.

One question on these underlying components of inflation you mentioned, do you put the significant contribution of profit margins into these components, because the profit margins seem to develop well? That could maybe put some questions on the narrative of the ECB very focused on the risk, either on the wage price loop. I would like to hear what you think about this contribution of corporate profits to inflation.

A second question, if I may, Mr de Guindos, you are quoted that some banks may be vulnerable. You have told this to ministers briefed earlier this week. I don't hear this today in your statement. Maybe you can specify, or confirm, or not, what has been reported.

I just want to go back to the statement. I just want to find the right sentence where, for the first time we talk about margins: So, ‘Moreover, many firms were able to raise their profit margins in sectors faced with constrained supply and resurgent demand.' So we mention it very specifically. It is part of the analysis that we conduct. It has been mentioned by some of you who are following us very carefully. We had a retreat of all the governors of the Governing Council to discuss in-depth various matters, one of which was actually the various components that fuel underlying inflation, and we did have some assessment of the increase in margins by the corporates, which played a role. I'd like to say one thing, because there has also been reference to the fact that I would have mentioned the word wages X times during my last press conference. I think what we hope for is a proper burden-sharing of what really is a quasi-tax – this cost-push shock has been operating a bit like a tax, at least in a portion of its form – and that this tax should be shared, because there has to be some burden-sharing. What we are concerned about is, whatever the burden-sharing, if that was to spiral into the second-round effect that we don't want to see, frankly. But this burden-sharing aspect is something that needs to be debated at society level, at corporate level, and it's certainly something that we would welcome, to the extent that it reduces the risk of second-round effects in particular.

On the other question that you asked, I also want to point to you the sentence which is in the second paragraph of the monetary policy statement, and as you know, the first paragraphs matter. In there, we say, ‘The euro area banking sector is resilient, with strong capital and liquidity positions', and we stand by that statement strongly, but I will let you, Vice President, comment on this wonderful leak.

de Guindos: As you can imagine, I remember what I told the ministers, and it's almost identical to what I have just told you. So that the banks are resilient, high capital ratios, robust liquidity buffers, high quality of the main components of the liquidity buffer, limited exposure to the institutions of the US, and simultaneously that the overall assessment was quite clear. So, the banking industry in Europe is resilient.

When you talk about the creativity of the staff, do you think that, if needed, the ECB could come up with a tool like the one presented by the Federal Reserve, accepting bonds at par instead of market value, or would it face legal constraints?

I have a second question, if I may? You have visited Spain recently, and I'm sure you are aware that there's a concern about the low remunerations on deposits there. Banks say that this is because they have plenty of liquidity from the ECB, so I was wondering if you think that the low deposits are going to continue until TLTROs mature, or it is something different and you are not in the same point as the banks?

When I say that I have full confidence in staff's creativity, what I mean is that I have seen them in action. They've been there, they've done it. And on the occasion of COVID, for instance, they were able in very short order to put together programmes that proved extremely efficient in order to resist the downside effect of the crisis. So those tools exist. They are strong, they are powerful, and they can be reactivated any time. We always stand ready to do that. Added to which, the facilities that we have currently, are probably broader and more accessible than the ones that pre-existed at the Fed. So I don't see the need at this point in time to explore any alternatives to the tools that we have, because I think that they function. If it was needed at some point in time, of course, I know staff will stand up to the occasion and will also look at what can be done within our mandate and in accordance with the rules of the Treaty under which we are governed.

On the issue of remuneration of deposits, I have spoken my mind on Spanish television, and I have observed that in quite a few countries now, the DFR is taken into account in order to determine the rate at which deposits are remunerated, either deposits at sight or term deposits, and, obviously, this is something that needs to be debated between the clients and their banks, but I observe that there are quite a few countries where banks actually do that, and competition between them is facilitating that process.

I would like to go back to this point about the incoming economic and financial data. In the past meetings we've heard a lot about what the economic data is, the underlying inflation data. Could you detail a little more what the financial data is that you will be watching, and is there a new emphasis on this data, or has it always been there?

Then my second question is, how much has the volatility we've seen in banks' stocks recently as the meeting was happening, affected today's decision, not necessarily the interest rate decision, but the choice to not lay the path ahead more clearly?

I like your last word: clearly. This is something that we are longing for, clarity, because, obviously, we work on the basis of data, of observations, of facts, and there is currently, for the reasons that I have mentioned in my monetary policy statement, a degree of uncertainty that pre-existed, but that has certainly been amplified by the most recent financial tensions that we have observed in the last few days. So it's obviously, difficult for a group of 26 members of the Governing Council to come to a decision in the face of projections and the first of the three elements that I have mentioned to determine our reaction function, to come up to a decision, but we were certainly confident that this 50 basis points rate increase was a robust decision, considering the ground that needs to be covered.

What financial data do we look at? We are particularly concerned, obviously, about our monetary policy transmission, so we look very carefully using various analytical tools. We look at credit, credit to corporates, credit to households, terms and conditions, restrictions eventually, if they were to be observed, to assess whether the financial conditions are tightening, and what impact this tightening of financial conditions will then have on the economy. Those are the key components that we assess to determine our monetary policy transmission.

There's been a lot of parallels done with 2008. Obviously, the banks are in different circumstances, but in July 2008 the ECB increased the interest rate, did an interest rate hike, just two months before the biggest financial crash in recent history. Is the ECB at risk of doing the same mistake?

The second question is about the transmission of monetary policy. It takes a long time for interest rate hikes to go through the economy. Given the uncertainty, isn't there a case for at least slowing down? You said you were data-dependent, but isn't there a case now to slow down in the next few meetings?

As you said yourself, the banks are in a completely different position from 2008, and crises are never exactly the same anyway, but the architecture of our banking system, the framework within which they operate, the supervision that is applied to the banking system have been all considerably improved. So, obviously, we are mindful of our history and what has been done in the past, but we are all confident that the decision that we made today is a robust decision, was called for, was needed, and we have, as you have noticed I'm sure, indicated very precisely that, as to the future, we would be data-dependent. That I think is predicated on the fact that we need to have a better assessment once the financial tensions on the market abate in the future.

On your second question, we are beginning to see a good transmission of our monetary policy in the credit sector, as I have mentioned earlier on. I think we have seen an increase of several basis points, 22 to 16 basis points, depending on whether you look at corporates or households, increases in the credit rates that are offered, and a significant tightening on the part of the banks that are probably assessing and reassessing the risks that they are taking. So this is, in our view, the beginning of an indication of good transmission of monetary policy. This is not the end of it. As you've said, it takes a longer time. It seems to have transmitted rather rapidly, if you consider that we decided to normalise our monetary policy back in December a year ago, so it's a little over a year ago, and we are certainly beginning to see in the credit segment the impact of our decisions. Are we seeing dampening demand? That remains to be seen. How much more does it need to be dampened in order to meet the objectives that we have, which is 2% medium-term target? To be seen. We are data-dependent. We are going to really look at the uncertainty fading out, hopefully, and what projections we will be able to operate upon, as well as what assessment we can make at our next policy meetings in May, June and subsequently.

I suppose the first question is, we've started to see these signs of weakness in financial markets, and you haven't taken that as a reason to pause, but is there, do you think, a message in what's happening? It's something that we haven't seen for a while, and it brings back memories of the financial crisis, as other people have said. Is just the unusualness of this a

reason to think twice about future rate increases, do you think, with this phrase that we hear, 'Raise rates until something breaks'?

My second question was related. At the moment the bank failures were in the US. Do you think this is more of a US-specific issue? Do you think there's something fundamentally different about Europe that means European banks are less vulnerable, or maybe the level of your policy rate means they're less vulnerable?

On the first question, I would like to just reiterate our confidence in our banking sector. As I said earlier on, it's a banking sector that is resilient, that has strong capital and liquidity positions, and we are monitoring the particular situation, and we are monitoring the market tensions, and we stand ready to respond with all the tools that we have that can be switched on, that would need to be applied to the situation, depending on the circumstances. So it's not business as usual, but we believe that the decision that we have taken is robust, is completely justified by the circumstances, and informed by our current analysis.

Is it a US-specific problem? We are all governed by – well, "we" are – the banking sector is governed by Basel III, and banks operate within the framework of Basel III. As you know, there have been multiple discussions and disagreement as to who applies Basel III better than the other, but I would simply observe, because comparisons are pretty odious, that in Europe we have strong supervision, we have strong capital, and we have solid liquidity positions, and as the Vice President said, exposures are not concentrated. And based on the work that has been conducted by the SSM, we don't have similar occurrences as the one that occurred in California, for instance, but maybe, Vice President, you want to add to that?

de Guindos: Well, perhaps the only thing to add is that the business model of the Silicon Valley Bank was quite unique, and there was a mismatch between the assets and the liabilities, and it made this bank vulnerable - and this has been indicated by the American authorities - to any important change in interest rates.

I have a question concerning the excess of liquidity and the ECB balance sheet. Did you discuss about an increase in the level of reduction, and if yes, when could this increase start?

You give me a chance to be very brief in my response. No, we did not discuss. We had plenty to discuss today, and we did not discuss that particular one.

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